

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 FRB-03 CEA-01 XMB-02 OMB-01 ABF-01
EB-08 CIAE-00 INR-10 NSAE-00 SS-15 AID-05 COME-00
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R 142351Z APR 78
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9748
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EO 11652: N/A
TAGS: EFIN MX
SUBJECT: MEX-DOLLAR INTEREST RATES DECLINE

1. EFFECTIVE APRIL 1, THE BANK OF MEXICO LOWERED THE RATE MEXICAN BANKS CAN PAY ON DOLLAR-DENOMINATED DEPOSITS (REFERRED TO LOCALLY AS MEX-DOLLARS). WHEREAS THE PREVIOUS RATE FOR MEX-DOLLAR DEPOSITS WAS THE RATE FOR THE CORRESPONDING EURO-DOLLAR MATURITY IN LONDON PLUS ONE PERCENT, THE NEW RATE IS ONE HALF OF ONE PERCENT ABOVE THE CORRESPONDING EURO-DOLLAR RATE. IN THE CASE OF MEX-DOLLAR DEPOSITS BY INDIVIDUALS THIS RATE IS MULTIPLIED BY 1.2658 WHICH INCREASES THE GROSS YIELD BY AN AMOUNT EQUIVALENT TO THE MEXICAN 21 PERCENT WITHHOLDING TAX ON INTEREST. THIS GROSSING UP PROVISION, WHICH HAS NOT CHANGED, DOES NOT APPLY TO CORPORATION DEPOSITS.

2. A BANK OF MEXICO OFFICIAL TOLD FINATT THAT THE PREMIUM ON MEX-DOLLAR DEPOSITS WAS LOWERED SIMPLY BECAUSE IT WAS NO LONGER NECESSARY TO HOLD DEPOSITS IN THE MEXICAN BANKING SYSTEM. ALSO, HE NOTED THE CENTRAL BANK DID NOT
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BELIEVE SUCH A HIGH PREMIUM NECESSARY TO ATTRACT DOLLARS, POINTING OUT THAT CAPITAL REFLows, WHICH DO APPEAR TO BE OCCURRING, ARE GOING INTO PESOS RATHER THAN MEX-DOLLARS.
THOMPSON

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Message Attributes

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Decaption Date: 01 jan 1960
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